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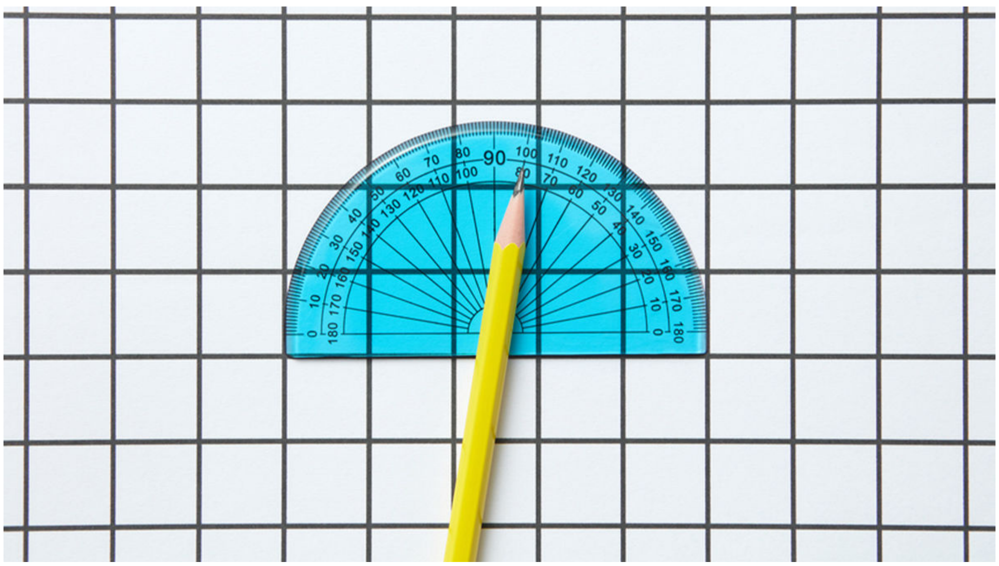
Organizational Learning



Evaluating ROI on Your Company's Learning and Development Initiatives

Five ways to ensure your L&D investments pay off. **by Bruce C. Rudy**

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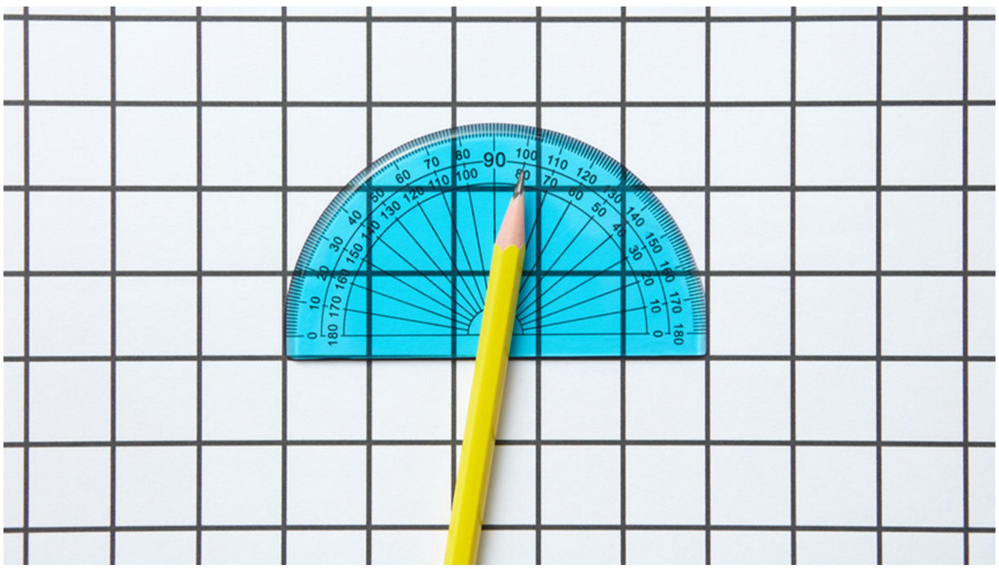

Yaroslav Danylchenko/Stocksy

Learning and development (L&D) programs have a problem: They are expensive, yield difficult-to-track outcomes, and typically generate a poor return on investment (ROI) for the firm. Yet L&D is critical to bringing the firm closer to that ever-elusive goal of becoming a true learning organization that is innovative and can adapt to changing competitive environments. So, how can your firm ensure it is getting the most out of its L&D investment?

The first step is to quantify baseline performance before training — but it's not enough to assess what the learner already knows. To help you target training to the individuals and teams most in need, you also want to understand how they contribute to team and organizational outcomes. Indeed, research suggests that training programs that start with a needs analysis prior to training result in learners being far more likely to retain and apply what they learn. However, performing a needs analysis is time consuming, and there is a lack of standardization around how to perform them.

Enter Balanced Benchmarking

What we now call balanced benchmarking was developed in the 1970s as a process to measure and improve operations management. It essentially uses an equation with input variables (for example, the number of employees at various bank branch locations or the salaries of a group of sales employees) that generate output variables (for example, the amount of deposits at each bank branch or the sales generated by each of the sales employees). Balanced benchmarking optimizes this equation using a linear programming technique that minimizes the inputs and maximizes the outputs. The result is a relative performance assessment (i.e., the efficiency of the performance of each individual or team relative to every other individual or team measured) based on the inputs and outputs selected.

Balanced Benchmarking in Action

In my research with a firm in the legal services industry, we applied balanced benchmarking with an L&D approach called learning in the flow of work to generate significant improvement in performance and a quantifiable ROI on the firm's L&D investment. The company's structure allowed us to treat each attorney as a strategic business unit with their own profit-and-loss statement, thus making the balanced benchmarking approach an ideal tool to assess their relative performance.

For the input variables in the balanced benchmarking equation (i.e., those variables we wanted to minimize), we used the attorney's salaries and their non-billed hours (i.e., hours that the attorneys worked on client cases but were not able to be billed for some reason). For the output variables (i.e., variables we wanted to maximize), we used the attorney's billed hours, fees received, number of referred clients, and client satisfaction reviews. We performed the balanced benchmarking approach monthly for each attorney in the firm over the course of a year, allowing us to quantify the performance of each attorney relative to the other attorneys in the group.

The balanced benchmarking approach allowed us to quantify how much the underperforming attorneys were lagging their higher-performing peers. This meant the firm could focus on the performance of specific attorneys with an understanding of how they should be performing. Additionally, the balanced benchmarking approach offered us the opportunity to quantify the impact of qualitative metrics (e.g., customer satisfaction reviews).

Sample Balanced Benchmarking Analysis at a Legal Firm

Balanced benchmarking is an approach companies can use to quantify performance and examine the return on investment in learning and development programs. It uses an equation with input variables that generate output variables. Below is an anonymized example of how it was applied on a monthly basis at a firm in the legal services industry. The company's structure allowed researchers to treat each attorney as a strategic business unit with their own profit-and-loss statement, thus making the balanced benchmarking approach an ideal tool to assess their relative performance.

	Inputs		**Outputs**				**Relative performance**
ATTORNEY	SALARY (MONTHLY)	NON-BILLED HOURS	BILLED HOURS	FEES RECEIVED	CLIENT REFERRALS	CLIENT SATISFACTION SURVEY SCORE	
1	$12,917	22	135	$41,000	0	3.00	94.2%
2	10,833	19	114	31,000	2	3.33	83.2
3	11,583	8	132	37,000	4	3.50	94.8
4	9,167	15	98	27,000	1	3.25	98.4
5	10,417	3	128	35,000	5	3.75	100.0

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In the example output above, Attorney 5 is performing the best relative to the other four attorneys. While Attorney 5 did not bill the most hours or receive the most fees for the firm, the combination of their lower salary and fewer nonbilled hours (the model inputs) with their strong outputs yielded the highest overall performance. At the other end of the spectrum, Attorney 2 has the most room for improvement, as we would expect them to be generating 16.77% more outputs (100% minus 83.23%) for their given inputs.

Utilizing Balanced Benchmarking in Your Organization

While the analytics underlying the balanced benchmarking approach are complex, utilizing this approach to assess performance in an organization is manageable thanks to the work of researchers in this space. Here are several suggestions to help you get started.

Variable selection is key.

The variables chosen for balanced benchmarking are arguably the most important part of using this approach to assess performance. You'll need to think deeply about which variables you want the model to minimize (i.e., the input variables) and maximize (i.e., the output variables). Data on these variables needs to be regularly collected and readily accessible, and must be tied back to factors that the individual or team has control over. For example, requiring a marketing team to minimize operational expenses associated with the production of the product or service they are selling is outside of their control. It would be more appropriate to require the marketing team to minimize discretionary spending (e.g., travel, dining, etc.) associated with their selling activity.

Watch for outliers.

As with any analytical approach, outliers in the data can have significant effects on the results of the analysis. This is even more critical with balanced benchmarking because it is a relative analysis — that is, the individuals or teams in the analysis are compared against one another. Thus, it is important to pay attention to outliers in your data, as they can cause inaccuracies in your findings. We've found that it's best to remove the team or individual with the outlying data from the analysis for a specific time period, as this will generate more accurate results.

Collect baseline data before applying training.

As an extension of the above recommendation, we strongly recommend that you collect data for your balanced benchmarking approach over several time periods prior to making any assessment decisions. Collecting and analyzing this data does two things. First, it helps you become more comfortable with the data and determine whether you are capturing the proper variables. Second, it provides a baseline for you to compare future performance against. While it will be tempting to act based on the outcomes of a balanced benchmarking approach, it is best to understand the data first and apply the appropriate training only after you have this understanding.

Connect the variables back to training.
It's not enough to simply understand which teams or individuals in your organization are performing at a higher or lower level relative to the other teams or individuals. The next step is to apply training to those low-performing teams and individuals to improve their performance.

To do this, you must use variables in the analysis that can be directly impacted by training. In our research within the law firm, we were able to readily identify the high and low performers utilizing the variables described above. The next step we took was providing the partners with leadership development training that taught them skills to help them coach for performance. It wasn't enough to demonstrate to the partners who the high- and low-performing attorneys in the firm were; we had to go one step further and give them the tools to help the struggling attorneys. By combining balanced benchmarking and this skills training, the partners were able to more effectively lead the attorneys, resulting in roughly a 15% annual increase in hours billed that generated additional revenues of nearly $1 million. Assuming a flat rate annual cost of $7,500/learner for the training, this investment would have yielded the law firm an annual rate of return of more than 950%!

Expand your data beyond your organization.
Balanced benchmarking provides a relative measure of performance for all teams or individuals included in the analysis. While it's easiest to perform this analysis within the firm because that data is accessible, the resultant analysis will only tell you who is performing better and worse

within the firm. This is helpful, but you won't know what the true best performance looks like in your industry.

To the extent that you can collect data from competitors on similar performance metrics, you'll be able to gain a better understanding of where your firm's performance stands relative to the industry. Competitor data is difficult to collect, but you will be surprised at what you can learn from industry veterans within your organization. Simple conversations with these individuals are likely to uncover a wealth of information about competitor performance metrics. For example, through conversations with partners in the law firm and attorneys who joined from competing firms, we were able to estimate an industry-level balanced benchmarking model that allowed us to compare the performance of the firm's attorneys against the industry standard.

Today, more than ever, L&D programs are critical to organizations' success. The changes occurring at the economic, global, environmental, and societal levels demand that companies continue to upskill their employees to maintain their competitive advantage. It's the only way to ensure that firms have the capabilities to succeed in today's volatile, uncertain, complex, and ambiguous environments. Historically, the challenge with implementing L&D programs has been the difficulty in quantifying the impacts on organizational performance. Utilizing a balanced benchmarking approach to assess training needs and applying training where it can be most effective is an approach that can overcome this challenge and ensure your organization is getting the most out of its L&D programs.

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